

Auditor-General of South Africa

Ulundi Municipality
Audit report 2015-16

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Ulundi Municipality

Report on the financial statements

Introduction

1. I audited the financial statements of the Ulundi Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ulundi Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material losses

8. As disclosed in note 36 to the financial statements, material electricity distribution losses to the amount of R28,02 million – 34,18 million kilowatts (2015: R69 685 - 24,89 million kilowatts), were incurred as a result of inaccurate metering equipment, technical losses and by-passed meters.

Going concern

9. As disclosed in note 39 to the financial statements, the Ulundi Municipality was facing financial difficulties. The municipality's current liabilities exceeded its current assets by R75,11 million, along with material electricity distribution losses incurred. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern in the foreseeable future.

Additional matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

11. The supplementary information set out on pages x to x does not form part of the financial statements and is presented as additional information. I have not audited these schedules, and accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements, and accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objective presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the basic service delivery objective presented in the annual performance report of the municipality for the year ended 30 June 2016.
15. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
16. I evaluated the usefulness of the reported performance information to determine whether it was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information.
17. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objective.

Additional matters

19. I identified no material findings on the usefulness and reliability of the reported performance information for the selected objective, however, I draw attention to the following matters:

Achievement of planned targets

20. The annual performance report on pages x to x includes information on the achievement of the planned targets for the year.

Adjustment of material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for the basic service delivery objective. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

22. The supplementary information set out on pages x to x and x to x does not form part of the annual performance report and is presented as additional information. I have not audited this information, and accordingly, I do not report thereon.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Expenditure management

24. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

25. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Consequence management

26. Irregular expenditure incurred by the municipality in the prior year was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matter reported below is limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Financial management

28. Management has not always adhered to legislative requirements, and action plans were not adequately implemented and monitored by management to prevent a re-occurrence of fruitless and wasteful expenditure, and officials were not held accountable for prior year irregular expenditure.

Auditor-General

Pietermaritzburg

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

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